



CITY OF BELMONT
AUDIT COMMITTEE MINUTES
Regular Meeting – October 15, 2013

Committee Members Present: Treasurer Violet, Council Member Braunstein

Committee Members Absent: Vice Mayor Lieberman

Staff Present: Finance Director Fil, Deputy Finance Director Lazzari, and
Management Analyst Voelker, City Manager Scoles

Others Present: Mark Wong, Principal, Maze & Associates (Invited)

The meeting was called to order at 4:20 PM.

Hearing no public comment or agenda amendments, the Committee moved on to the approval of the minutes.

Moved by Chair Violet, seconded by Committee Member Braunstein, the February 27th minutes were unanimously noted and filed.

Deputy Director Lazzari began her review of the FY 2013 year-end close financial reports, noting that the General Fund ended ahead of estimates at \$6.2 million, \$5.7 million of which is available for unrestricted expenditure. She gave a concise review, stating that revenues exceeded expectation, sales tax, property tax, and Transient Occupancy Tax (TOT) have all increased, many vacancies were held vacant, and there was a reduction in support for other funds, such as the Recreation Fund and Development Services Fund.

Director Fil presented the Comprehensive Annual Financial Report (CAFR), noting the “sports” theme, which pays homage to local Belmont teams. He also pointed out several formatting and organization improvements staff made this year, in hopes to make the CAFR more straightforward and understandable for the reader.

Director Fil made it clear for the Committee that the City is responsible for the financial statements, not the independent auditor. Discussion ensued regarding new disclosures as they relate to the former Redevelopment Agency (RDA), allowed for in the Generally Accepted Accounting Principles (GAAP).

Director Fil pointed out that the Governmental Accounting Standards Board (GASB) issued several new requirements for next year’s reporting, such as GASB 67/68, which directly relates to reporting of CalPERS pension liabilities on the City’s balance sheet. GASB 67 must be completed by CalPERS by FY 2014. He stated that CalPERS does not have the capacity to perform the required

calculations, so the City will have to pay for the GASB 68 calculations in preparation for the FY 2015 audit.

Principal Mark Wong began his required communication to the Audit Committee, noting that a clean opinion was issued in the Memorandum on Internal Control, which reported no material weaknesses or significant deficiencies found in this year's audit.

Principal Wong addressed upcoming requirements that the City will have to prepare for in future audits, such as GASB 68 (reporting of pension liabilities), GASB 69 (reporting of mergers/acquisitions), among others. These requirements will be implemented in the City's FY 2015 audit. Discussion ensued.

Principal Wong continued his required communication to the Committee, noting that the City implemented two new GASB requirements (63 and 65) in this year's audit, and cited those format changes in the CAFR.

In response to a question by Chair Violet, Principal Wong stated that the pending litigation between the City of Belmont as Successor Agency to the RDA and the Department of Finance (DoF) regarding the \$1.3 million claw-back is not yet on the City's balance sheet, as it has not been deemed a material loss as of yet. Discussion developed regarding the process that the City has undergone as a result of the claw-back attempt from DoF, including audits from the DoF, as well as the State Controller's Office. Director Fil informed the Committee that the City is in the process of litigating, but that, in the end, the DoF has the power to take the \$1.3 million, albeit, in the Director's opinion, unconstitutionally. He went on to field more questions, noting that the former RDA's agreements with the school districts are still intact, but that the City has hired an economic consultant to run the numbers on the pass-through payments that are part of those agreements. The County will then put them in a "priority obligation" order. Further discussion ensued.

Committee Member Braunstein asked Principal Wong whether there was any notable attention paid to internal controls in this year's audit, or planned for next year's audit. He acknowledged that the Finance Department staff is short on personnel and is trying to keep up with the ever-changing requirements related to RDA dissolution and the DoF claw-back, but inquired as to what the plan is for looking at how the City establishes controls over routine processes, similar to a more "normal" audit historically, prior to these large issues (RDA dissolution, Fire Department dissolution, etc.). Principal Wong responded that during this FY 2013 audit, his team has had more time to look at audit risk assessment with fresh eyes, as there was a manager rotation on this year's team. His staff looked at internal controls, including bank reconciliations, a focus on cash and investments, as well as segregation of duties.

Director Fil reiterated that the purpose of today's meeting was to communicate the results of the FY 2013 audit and that the Audit Committee will have an opportunity to discuss planning for the FY 2014 audit at the next meeting in January/February. He suggested that Principal Wong consider Committee Member Braunstein's questions and provide some ideas at the next meeting. Committee Member Braunstein added that, for non-financial people, it's important to make sure that ample time is given to think about and discuss what is involved in performing a "standard audit". He suggested that the Committee and Principal Wong come up with some suggestions to discuss at the next meeting, such as what internal controls have been audited in the past, what the City should be doing, whether there are any holes in internal controls, etc. Chair Violet concurred, and agreed that this item should be discussed in more detail at the next meeting.

At this time, Director Fil asked Principal Wong if there were any issues he needed to discuss with the Committee in private without staff present, to which he replied no. He asked the same of the Audit Committee, and they, too, stated that they had no private issues to discuss.

Chair Violet thanked staff, in particular Deputy Director Lazzari and Accountant Santiago, for their long hours of work and for getting the audit done in such a timely fashion this year, as Belmont was the first city to issue its CAFR.

Director Fil asked the Audit Committee for specific points of emphasis they would like to make at the upcoming Council meeting, as part of their report to Council. Discussion ensued.

The Audit Committee agreed that the CAFR and all related reports were noted and filed.

Moved by Committee Member Braunstein, seconded by Chair Violet, by unanimous voice vote, the annual Audit Committee report was recommended for approval by the City Council.

Chair Violet noted that the next Audit Committee meeting will be held in January or February, time and date to be determined.

The meeting was adjourned at 5:27 PM.

Sincerely,

Thomas Fil
Finance Director